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SUBJECT: AMBASSADOR DISCUSSES DEVELOPMENT IN HOA BINH AND
SON LA PROVINCES: STARK CONTRASTS IN THE NORTHWEST

¶1. (SBU) Summary: On a recent visit to Hoa Binh and Son La provinces west of Hanoi, the Ambassador discussed economic and issues development local leaders. The Hoa Binh officials were notably progressive in their approach to development, which bodes well for their province. However, Son La's officials, despite facing some of the highest poverty in the country in a region that is more remote, reflected an old-school socialist approach to rural development that relies heavily on a major hydro-electric dam project to boost provincial growth. Both regions need foreign investment and tourist dollars to continue to develop, but Hoa Binh's more market-oriented approach and its geographic advantages will likely mean that it will be more successful in this regard in the long term. One glimmer of hope for Son La may be in small-scale agricultural enterprises that are currently growing rapidly. End Summary.

¶2. (SBU) The Ambassador traveled March 13-15 to Hoa Binh and Son La provinces. In Hoa Binh Town, he visited the local parish church and met with the new chairman of the Provincial People's Committee (PPC). In Son La town, the Ambassador met with the Son La PPC chairman, as well as the principal of Son La Ethnic Boarding School and the Son La Joint Counternarcotics Task Force Unit commander. He also visited the Son La hydropower dam site one hour north of town and visited the Moc Chau Tea Company in Moc Chau District on the eastern edge of Son La Province. Topics discussed in the two provinces during this trip included provincial economic development, ethnic minority issues (septel), religious freedom (septel) and provincial efforts to halt the cross-border drug trade (septel).

HOA BINH

¶3. (SBU) On March 13, the Ambassador met with newly promoted Hoa Binh PPC Chairman Bui Van Tinh in an open session with several provincial reporters and continued the conversation over lunch. Tinh was Provincial Vice Chairman from 2004 until the February 2006 Provincial Party Congress, during which he was elevated to the chairmanship. (Note: Tinh was strikingly professional in his approach to the Ambassador's visit, instructing his staff to facilitate the visit schedule in a timely and constructive manner. Unlike many other provincial chairmen, Tinh exhibited little overt suspicion over the visit and, unusually, no Ministry of Public Security (MPS) personnel participated in any of the meetings. End Note.) Tinh began by presenting the Ambassador with a written summary of economic and social development in Hoa Binh in 2005 that also enumerated the PPC's development targets for 2006. He briefly noted that this northwestern province of 800,000 people has seven main

ethnic groups, the largest of which (sixty-three percent of the population) are the Muong. The per capita income in the province in 2005 was 1.8 times the rate in 2000. Under the 2000 guidelines, only 7.8 percent of the population falls under the poverty line, as compared with 27.4 percent in 2000. However, under the new poverty guidelines (annual income of USD 150 in rural areas), 31.1 percent are below the line. All of the villages in the province have been electrified and phone service covers the entire province. Over 95 percent of the inhabitants have access to radio and 75 percent receive television broadcasts, Tinh said.

14. (SBU) Tinh explained that the PPC has set a goal of achieving an average of 11-12 percent GDP growth over the next five years. The PPC also hopes to reduce the percentage of people living under the poverty line to 27 percent (under the new guidelines) by 2010. He encouraged the Ambassador to promote Hoa Binh as a prime destination for foreign direct investment by U.S. businesses as it adjoins Hanoi municipal province and is in the process of establishing five new industrial zones to attract investment. The province hopes that rapid WTO accession will also increase its attractiveness for foreign investors. Hoa Binh has been faster than other provinces in equitizing SOEs, and is now down to equitizing the remaining two of the original ten SOEs. There are now more than 400 businesses based in the province. In addition, Hoa Binh has built a new 54-hole golf course to attract tourism and will complete another 36-hole course in time for the APEC leaders' summit in November. The Ambassador replied that golf courses may catch visitors' attention, but with the hundreds of thousands of new tourists to Vietnam, the province will also need hotels and resorts to attract them. Tinh said that the province has allocated land for building a 200-room, four or five-star villa resort, including an attached ethnic

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minority cultural village.

15. (SBU) Turning to health issues, Tinh noted that Hoa Binh is one of the 47 Vietnamese provinces considered to be at high risk of Avian Influenza (AI) outbreaks. However, provincial officials have not yet detected any human cases of the H5N1 virus, a success he attributed to the province's efforts to cull infected fowl. Tinh estimated that the total economic damage from AI in the province at six billion VND (USD 375,000) in 2005. The province has also imported a significant amount of equipment to help detect the virus. Tinh also briefly reiterated official GVN talking points on Agent Orange (AO), asking the Ambassador to encourage the United States to assist with the treatment of "AO victims".

16. (SBU) The Ambassador noted that this was the 34th province that he has visited since arriving in Vietnam, and outlined his five main focuses. The Ambassador's main mission is to increase mutual understanding between the United States and Vietnam, which requires that he educate himself by talking to local leaders and the press across Vietnam. The four other objectives are of equal priority: supporting Vietnam's economic liberalization and entry into the world marketplace; creating conditions to help U.S. businesses to trade with and invest in Vietnam; assisting Vietnam in its efforts to fight the spread of diseases and to improve healthcare; and furthering our bilateral dialogue on human rights and religious freedom in Vietnam (septel).

17. (SBU) Observing that the 1995 Bilateral Trade Agreement (BTA) has created a new framework for growth in Vietnam, the Ambassador noted that the Vietnamese have benefited more from the BTA than the United States. Hundreds of thousands of Vietnamese fishermen and farmers enjoy a better standard of living because of the increase in shrimp, catfish, rice, pepper, coffee and other products' exports to the United States. Other Vietnamese workers, particularly in the textile and shoe industries, have also benefited from access to the U.S. market. We are now in the second phase of

broadening bilateral trade relations through ongoing negotiations over WTO accession. These negotiations are in the final stages after several years, but this is a process that will pay dividends for decades to come as the National Assembly has recrafted the legal framework for economic activity in Vietnam as part of the negotiations.

¶8. (SBU) Looking at investment, the Ambassador emphasized that without the BTA and WTO accession Vietnam would not be attractive to U.S. investors. However, the Prime Minister has said he wants to see the United States become the largest total investor in Vietnam (from sixth in 2005) and "the stage is set" because the United States was the single largest investor for the year 2004. The Ambassador noted that he recently attended the groundbreaking ceremony for Intel's new chip plant in Ho Chi Minh City's industrial science park. This program will mean 1,200 new jobs and will open the door for Vietnam to enter the IT industry. Many other U.S. firms are looking to invest in Vietnam soon. However, "success follows success" and a few more successful investments like Intel's will help attract much more money later. The Ambassador also noted that another essential element for attracting investment is improvements in infrastructure. Although Hoa Binh is technically quite close to Hanoi, it took several hours to drive from the capital to the center of the province over poor roads. Hoa Binh needs better access to Hanoi's airport and the coastal ports to make business investment worthwhile. Tinh replied that the Ministry of Transportation is preparing to extend and widen the Ha Nam highway to the coast all the way up to Hoa Binh Town and also plans to upgrade the road to Hanoi to a four-lane highway. The dates for completing these improvements have not yet been set.

¶9. (SBU) The Ambassador recommended that Hoa Binh study its economic competitiveness in relation to other provinces. USAID published a 2005 study of provincial competitiveness that compared forty-two provinces in nine different areas that affect their ability to attract business. Although Hoa Binh was not part of the original study, the Ambassador promised to send Tinh a copy of the report in Vietnamese so the Hoa Binh provincial leaders can consider ways to compare their performance with other provinces. He also noted that education is a major factor in making a workforce attractive to investors.

¶10. (SBU) Speaking about public health, the Ambassador highlighted that President Bush named Vietnam a focus country under the President's Emergency Program For AIDS

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Relief. The United States will give \$34 million to our partners in the Ministry of Health (MOH) under this initiative in 2006. AI is another focus for U.S. assistance to Vietnam in partnership with MOH and the Ministry of Agriculture and Rural Development (MARD). The Ambassador also responded to Chairman Tinh's reference to AO, noting that this remains an important bilateral issue that requires more discussion between the GVN and the United States. More work must be done to clarify the issue and find effective ways of dealing with it. While there are many disabled people across Vietnam, it is simply not true that all disabled Vietnamese are victims of AO. We need more joint scientific research into the long-term effects of dioxin. At any rate, over the last 15 years the United States has provided \$35 million for the disabled in Vietnam and even more money has come from other U.S. sources. This funding stream still exists, though it is meant to address systemic issues and not to assist individual cases. The Ambassador also highlighted U.S. efforts to educate Ministry of Defense (MOD) representatives about dioxin clean-up procedures in the United States.

¶11. (SBU) Chairman Tinh asked if the Ambassador would help Hoa Binh Province find overseas development aid (ODA) to build a modern, 400-bed hospital to help with provincial

efforts to prevent the spread of HIV/AIDS and AI. U.S. HIV/AIDS and AI funding have helped Hoa Binh control the spread of these diseases. The Ambassador replied that the United States gives almost all of its ODA in the form of grants as opposed to other nations like Japan, which give ODA in the form of loans. U.S. ODA in Vietnam is focused almost entirely on projects that build GVN capacity, not individual projects such as the proposed hospital. That said, the United States contributes up to one-third of the funding for the World Bank and IMF, which do assist with individual projects. The Ambassador also noted that many U.S. NGOs do excellent work supporting projects in education and health in Vietnam, and Hoa Binh might do well to consider seeking funds from these sources. A third alternative source might also be overseas Vietnamese who are coming back to Vietnam as the GVN reaches out to them for help. Tinh noted that there already are eleven U.S. NGOs operating in the province.

¶12. (SBU) In conclusion, the Ambassador thanked the Chairman for Hoa Binh's assistance to the Joint Personnel Accounting Command's (JPAC) continuing search in the region for U.S. missing in action. Hoa Binh's efforts have helped many families move on with their lives. We know that many thousands of Vietnamese families are also looking for their loved ones. The United States will continue to help Vietnam to account for its missing, he said.

SON LA

¶13. (SBU) In stark contrast to the Hoa Binh PPC chairman's professional and relaxed approach, Son La PC Chairman Hoang Chi Thuc insisted on a more formal briefing for the Ambassador during a welcoming session with extensive representation of all of the provincial staff on March 14. Although the Ambassador briefly reiterated the same basic points he made with the Hoa Binh chairman, Thuc's style of presentation did not allow for any real discussion. Most of the meeting, he read word-for-word for our translator from a laboriously detailed script that was evidently drawn from Son La's official development report to the Central Committee. Thuc's approach reflected his very tight control over the visit agenda. All changes, decisions and requests were referred directly to him throughout the visit despite the large staff tasked with facilitating the Ambassador's schedule. The Ambassador was able to engage Thuc in a dialogue the following evening at a farewell dinner hosted by the chairman (see para 20). (Note: Non-development related issues reported septel. End Note.)

¶14. (SBU) Thuc noted that the eleven districts of this 14,000 square kilometer, mountainous province bordering Laos hold a population of 990,000. As the GVN has restructured the economy to a market-oriented production model, economic growth has accelerated. The average GDP growth rate between 2001 and 2005 was 11.6 percent. In 2005 alone, however, it was 15.5 percent, which was 1.7 times the rate in 2001. The average per capita income is 4.2 million VND (USD 265) per month. The province has shifted economic focus from agriculture and forestry to industrial production and services. In 2000, 60.9 percent of the economy was based on agricultural and forestry, but in 2005 industry comprised 21

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percent and services nearly 35 percent of economic activity. Agriculture remains focused on tea, coffee and sugarcane production. All the Province's communes now are connected to the road network, and nine out of ten villages have television and mobile phone connectivity. There has been less investment in water supply and electricity infrastructure. The 2005 poverty level was 46 percent under the new poverty guidelines (11 percent under the old guidelines).

¶15. (SBU) Turning to health care and other social issues,

Thuc noted that Son La is focusing on building its capacity in primary care. The province has prevented outbreaks of epidemics and the rate of malaria infection decreased to only 1.7 percent of total population in 2005. Son La has also been able to control the spread of AI and SARS, and has provided extensive family planning services to the population. Culturally, there are more than 1,600 artistic groups supported by the PPC and 85 percent of the public has access to television programming. In addition, the province has focused on building institutional facilities for sports and physical training. Thuc also asserted that Son La is focused on protecting the environment despite its rapid economic growth. The province has an extensive reforestation campaign underway.

¶16. (SBU) Thuc acknowledged that Son La is "still facing difficulties" and explained that main goals for the PPC during the next five years are: 1) to ensure the sustainability of growth; 2) to improve provincial competitiveness; and, 3) to resolve "pressing social issues." To achieve these goals, the province hopes to use the Son La hydropower dam project as the focus of economic growth, and to continue to encourage industrialization over agriculture and forestry to stabilize economic conditions. The province also hopes to increase foreign investment. Son La plans to reduce the number of people living below the poverty line to 25 percent by 2010.

Son La Dam

¶17. (SBU) Immediately following Thuc's presentation, the Ambassador was given a tour of the Son La Dam project. The Da River dam is currently under construction. Primary work at this stage is the construction of infrastructure to support the work site and caissons in the river to allow work on the main structure to begin. A spillway has already been completed. Deputy Project Director Nguyen Hong Ha explained that this is the largest hydro-electric project in Vietnam. SOE Electricity of Vietnam (EVN) is the primary investor, but funding has come from five different sources: EVN's own capital funds, domestic commercial bank funds, allocations of the State budget, funding assistance from the principal equipment suppliers for the project and from Government bonds. Ha could not provide a percentage breakdown of the funding streams, but noted that the State budget funding goes primarily to the massive effort to resettle ethnic minority communities displaced by the dam's reservoir (septel). To date, 100 million dollars have already been spent on the USD 2.4 billion project.

¶18. (U) Ha explained that the Son La Dam project has two main goals: 1) to provide electricity to the national power grid and 2) to "improve and harmonize" the flow of water in the Da River. (Note: The Da river is notorious for its monsoon season floods. End Note.) The dam will produce 2,400MW of power, which will be 1.2 times the production of the Hoa Binh hydro-electric plant (the other dam facility on the Da River). Annual capacity at full operation will be 10.2 billion KWH and the reservoir will hold 9.26 billion cubic meters of water. The reservoir will also be able to hold a flood reserve of four billion cubic meters. Initial survey work for the project was finished in December 2005 and the initial work to "close water" in the river has been completed. According to project plans, the first generator of the plant will be in operation by 2010. In all, six generators should be in operation when the project is completed in 2012. Ha noted that the project is currently on schedule to meet these targets.

¶19. (U) While Vietnamese contractors will take the lead in constructing the dam and power plant and managing the project, the project management board is looking for joint partnerships with outside engineering firms. Song Da Construction (SDC) has already utilized a number of outside consultancies, including one U.S. firm, to help with the design of the dam and to ensure earthquake safety. EVN is

also preparing a request for bids to tender assistance in supervising construction. Most heavy construction equipment will be provided by outside suppliers - U.S. (Caterpillar) and Japanese/South Korean excavators, French and Chinese cranes, mixers and grinders from G-7 countries and U.S. bulldozers. SDC, a 70 percent equitized SOE which has been converted to a hydro-electric construction holding company, has 27,000 employees, but only 6,100 are currently employed in this project. Some of these are locally hired, but the management board could not provide a percentage breakdown of local employees. SDC is only one of several contractors on the project, and has primary responsibility for the actual hydro-electric facility. Several other firms are involved in infrastructure development around the construction site and the future 220 square kilometer reservoir.

Dinner with Son La Chairman

¶20. (SBU) At a dinner hosted by Chairman Thuc, the Ambassador noted that he was pleased to see some Caterpillar equipment being utilized in the Son La Dam project, but that he would like to see more U.S. content, especially since the current bilateral balance of trade of six to one heavily favors Vietnam. He also asked how the project will benefit Son La Province economically since it is the cornerstone of the PC's plans for provincial development. Thuc explained that the National Assembly decided to invest in the Son La project in 2002, and planning and preparation began in 2003. The province will participate in the dam's construction, and it will bring various benefits to the area, not least of which will be electrical power. It will also control Da River flooding which will be important for provincial agriculture. The project is really three separate project: 1) the dam itself, 2) the resettlement of displaced people, and 3) the upgrade of the province's road network. This last effort in particular will greatly improve the economy of the Northwest as new service roads are built and displaced roads are raised above the water level.

¶21. (SBU) The Ambassador observed that despite its 12-15 percent GDP growth rate, Son La has some of the highest levels of poverty in the country. The mountainous geography of the region is not kind and the province is a long way from Hanoi, its airport and coastal seaports. Where Hoa Binh Province can invest in tourist infrastructure to attract and retain more tourists, it is more difficult to get people to even visit Son La because of its remoteness. Focusing on decreasing the gap in the province's competitiveness when compared to other provinces is important, but this cannot happen overnight and will require the assistance of the central government, he predicted. Meanwhile, other provinces in Vietnam will accelerate their attractiveness to foreign investors. Without GVN money, it will be hard to make Son La competitively attractive to investors even if the province focuses on training. The Ambassador promised to send Thuc a copy of the provincial competitiveness study to assist the provincial leadership in thinking about boosting their province's competitiveness. Thuc noted that Son La has received permission to upgrade its airfield to a serviceable airport. This will allow daily tourist flights from Ho Chi Minh City. The Ambassador replied that this will help attract some tourism, but Son La will still be in competition with much better known places like Dalat, Nha Trang and Ha Long Bay.

¶22. (SBU) Thuc agreed that Son La will have to make the most of its tourist potential with the assistance of the central government, but he noted that Moc Trau District has a similar climate to Dalat, and the GVN has included Moc Trau in its development plans. Also, once the Son La Dam is completed, the reservoir will allow for low-cost transportation and will have a potentially rich fishery. Although Son La does not have any big industrial zones, there are many locations in the province appropriate for

medium- and small-scale hydro-electric projects. "Lots of investors" have registered their intentions to build such plants, another potential source of increased economic activity.

¶23. (SBU) The Ambassador noted that he visited Son La Province once before to inspect a JPAC effort to excavate a war-era crash site. He thanked the Chairman for the province's support in this ongoing effort. Son La's efforts have helped many families move on with their lives. We know that many thousands of Vietnamese families are also looking for their loved ones. The United States will continue to help Vietnam to account for its missing, whenever possible.

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The United States is also expanding work to find and remove unexploded ordinance from Vietnam. The first phase of this effort focused on three provinces in the center of the country, but we are now looking to establish a second phase. Maybe some of this next effort will focus on the Son La region.

¶24. (SBU) In conclusion, the Ambassador noted that the issue of AO remains an important bilateral matter that requires more discussion between the GVN and the United States. We are doing things together to discuss how to clean up sites where AO was stored. We need more joint scientific research into the long-term effects of dioxin. It is inaccurate to describe every disabled person in Vietnam as a "victim of AO". We need to define the problem more clearly while meeting the needs of the disabled. The United States has provided USD 35 million for the disabled in Vietnam. "We need to be careful how we talk about this issue, particularly with young people, so we don't exacerbate the problem," the Ambassador said. Thuc asserted that AO is a social problem which has affected the lives and future of a generation. "I agree that we should support the victims of AO," he said. The Ambassdor reiterated that we should support all disabled people rather than argue about what caused their disabilities. (Note: Non-development issues discussed at the dinner reported septel. End Note.)

Moc Chau Tea Company

¶25. (U) On the way back to Hanoi, the Ambassador made a brief stop at the Moc Chau tea plantation in Moc Chau District along the Son La/Hoa Binh border. (Note: Historically, the Moc Chau State-owned Farm was one of the best known model farms in the communist North. Originally a dairy and tea plantation, the farm was established in 1958. It is still one of Son La's most famous agricultural enterprises and is among the largest farms in the country, although it has recently split into two separate State-owned companies - a tea company and a dairy farm. End Note.) The tea company director, Pham Tien Lo, explained that by 1995, after ten years of Doi Moi ("renovation") policy, the tea farm began to experience continued sustainable development. In 1995, 1,163 local households contributed to production, but in 2005 over 6,000 participate. The company has gone from requiring only one factory in 1995 to seven full plants. The company produces 10,000 tons of fresh tea annually (from 2,000 ten years ago). To accommodate its growth in size, the tea company has imported equipment from Taiwan and Japan, which has boosted production and increased exports. Fully 80 percent of the tea is exported. Revenues have increased from a few hundred thousand dollars in 1995 to over four million dollars in 2005. Lo explained that the tea company receives technical support and financial assistance from the French government, which has also helped Moc Chau promote its trademark in the EU.

¶26. (U) Lo explained that the company is in the process of equitization, and that 51 percent of the company will eventually be sold at auction. The company has not yet determined how much money they will raise through this

process and will rely on an initial block of shares sold on the stock market to estimate market value. Once a price is determined, company employees will have first rights to buy shares. There are 800 direct employees of the company, although 6,000 households in the district sell tea to the factory. (Note: Ethnic minority participation in tea production reported septel. End Note.) The total land owned by the company is only 500 hectares, but at least another 1,000 hectares belonging to local people produce tea for the Moc Chau green tea label. The company has determined through extensive studies that this is the most lucrative product for the local climate.

¶27. (U) Lo noted that growth of the Moc Chau Tea Company has helped Son La Province develop and has reduced poverty in Moc Chau District. The company has also been a good corporate citizen, building six schools in the area, as well as several TV stations. The company has also assisted several JPAC MIA searches, as several MIA sites were located on company land. Although it takes years for tea bushes to become productive, the farm gladly allowed JPAC to dig up tea fields in four or five locations. The Ambassador thanked the tea company board for their effort to assist us in the search for MIAs. We recognize that these activities can disrupt economic activity, he acknowledged, although JPAC tries to limit the impact.

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¶28. (U) Looking ahead, Lo stated that Moc Chau Tea Company is very optimistic about future growth despite the relatively small revenues produced today and growing competition from companies in Lam Dong, Yen Bai and Phu Tho provinces. Their biggest hope is that WTO accession will open the U.S. market to their product. The Ambassador noted that while WTO accession may happen very soon, the company will still face a significant problem in overcoming U.S. drinking habits. However, there is a ready niche market within the U.S. for green tea in the Viet Kieu community. The company might want to focus on penetrating that market, rather than attempt to sell to the whole United States. He also recommended that the faster the company equitizes, the better, so that the company can focus on increasing production. The company will also need to find good foreign partners as middlemen to penetrate niche markets.

Comment

¶29. (SBU) The contrast between the local government approach in Hoa Binh and Son La provinces could not have been starker. While Hoa Binh has a number of economic advantages over its neighbor to the west, not least its accessibility, PPC Chairman Tinh was clearly more progressive in his approach to development (among other issues reported septel), compared with Son La Chairman Thuc. In many ways, Son La represents the old school of socialist development thinking: large-scale, capital-intensive, Government-funded projects that are hugely disruptive in the short- to medium-term without clearly identified benefits for the local economy in the long term. While the Son La Dam project will undoubtedly bring money and electrical power to the province, it is unlikely that the project alone will drive industrial growth and employment in the region, much less the province. It is more probable that the key to Son La's development more likely lies with smaller-scale enterprises like the Moc Chau Tea Company, an impressive if still relatively small business model. Hoa Binh's leaders, on the other hand, seem to recognize that they must make their province more competitive to attract foreign investment, trade and tourist dollars through a variety of capital and administrative improvements. They have already developed a slick and professional approach to advocating for their province, a style that will pay far more dividends with foreign investors than the "true believer" presentation of Chairman Thuc. End Comment.

